

Effective Use of KSOs in a Sales Compensation Plan

By: Jerry Colletti and Mary S. Fiss

Regardless of the industry, in tough economic times, sales executives are more receptive to considering the use of KSOs in the compensation plan. A KSO (key sales objective) incentive is one that provides a sales rep with the opportunity to earn a bonus based on achieving a prescribed sales activity or milestone. Ideally, sales incentive compensation – commission or bonus – should be paid based on sales financial results. However, there are times (e.g., economic recession) and sales circumstances (e.g., complex, long-cycle sales) where KSOs can serve a useful purpose in directing, motivating and rewarding sales behavior and performance.

The purpose of this Short is to describe how to appropriately structure a KSO incentive for optimal results. The six important design considerations are:

1. State a clear charter for the KSO incentive. Whether it is used in good or bad times, a KSO incentive should be tied to achievement of a milestone or process that contributes to a meaningful sales result. Examples include: a) identifying new opportunities to sell a strategically important product in a target account; b) displacing a competitor in a contract account (that defines terms of future business); and, c) improving customer satisfaction survey ratings.

2. Limit the number of KSO measures. Ideally, a plan should include only one KSO measure; however, it is not uncommon to see two or three KSOs included in an annual compensation plan. The important point to keep in mind is that the KSO incentive opportunity should not be greater than 20% of the target incentive opportunity. With that opportunity, dividing it among more than three KSOs significantly dilutes the motivational and monetary value of each.

3. Adhere to best practice selection criteria. KSO measures should be quantifiable and measurable, thus requiring little management judgment or debate about the performance result. Selecting measures that meet these criteria appropriately places management emphasis on setting realistic goals for each measure.

4. Set appropriate weights. If more than one KSO is included in a plan, careful consideration should be given to the weighting of each (i.e., how much of incentive opportunity is allocated to each KSO). To truly be motivational, no one KSO should have a weight of less than 5% of the incentive opportunity

5. Specify realistic performance period. The length of the performance period should reflect time horizon over which the KSO could reasonably be achieved. Typically, this is either quarterly or annually. However, there may be situations where a mid-year (i.e., six month period) measurement and payout is appropriate.

6. Simplify KSO administration. Properly managing a KSO bonus element in a sales compensation plan is more time consuming than a formulaic bonus. Because measures and goals are often unique by sales person, on-going performance tracking, evaluation and reporting is often manual. Simplifying KSO administration is essential to their effective use. Key guidelines to follow in doing so include:

- Set a limited menu of relevant KSO measures
- Use measures for which results can tracked with existing systems
- Set standards for goal-setting and performance evaluation for goal attainment